



# Presentation to Government Operations Interim Committee

November 15, 2016



# Classification Overview

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- DHRM is statutorily responsible for classification of the State's "classified" workforce
- Classified employees are typically also career service
- DHRM controls these functions to assure consistency in application, provide the appropriate expertise, and to reduce liability
- Classification is assignment of employees to the appropriate job title and salary range for the work actually being performed
- Jobs and salary ranges are controlled by DHRM
- Reduces liability: "equal pay for equal work", FLSA, and discrimination

# Compensation Overview

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- DHRM is statutorily responsible to conduct an annual salary survey
- DHRM compiles data, analyzes our position against the market and other factors, researches market trends, and makes recommendations on employee compensation to the Governor each year
- HB 239 (2015 General Session) allows DHRM to use all relevant data in our analysis and recommendations
  - Not just salary data but other factors such as turnover and applicant pool #'s, etc.
  - Future data will include quality of hire
- Recommendations usually include a mix of across the board increases and targeted funding
  - Recommendations strategically developed to alleviate current challenges

# Types of Compensation Increases

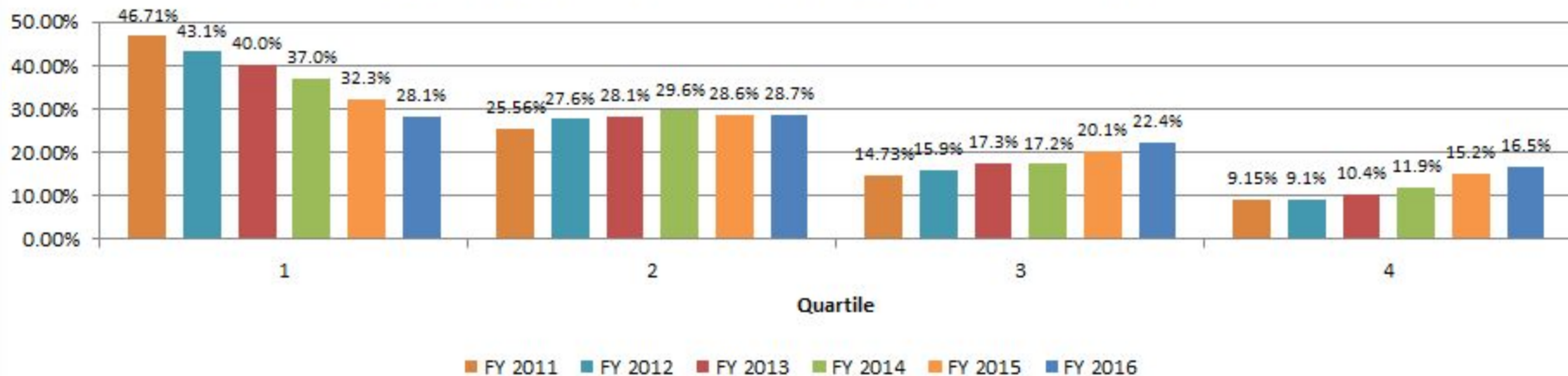
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## ACROSS THE BOARD INCREASES

- **General Increase** - Provides a salary increase to employees within an existing salary range (designed to alleviate compression problems, help with recruitment efforts)
  - Salary Range = \$10-20/hour
  - Employee moves from \$10.00 to \$10.25
  - New employees start at \$10; gap is created between new and existing employees
  - Employees move through their salary range

# General Increase and Effect on Compression

**FY 2011-2016 State of Utah Quartile Distribution**



# Types of Compensation Increases

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## ACROSS THE BOARD INCREASES

- **Merit Increase** - Provides a salary increase to employees within an existing salary range to each employee who receives a rating of "successful" or higher in an annual evaluation of the employee's productivity and performance.
  - Same implementation and effects as a General Increase; wage moves but salary range does not
  - Has not been used since 2002 for a variety of reasons:
    - Former step pay plan required 2.75% increases
    - Supervisors reluctant to "fail" employees; nearly 100% of employees qualify
    - Pass/fail rating systems and timing don't line up
    - Creates expectation that successful performance and salary increases are linked and automatic

# Types of Compensation Increases

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## ACROSS THE BOARD INCREASES

- **Cost-of-Living Adjustment** - Provides a salary increase to employees and increases the salary range itself (designed to keep up with inflation)
  - Salary Range = \$10-20/hour, employee moves to \$10.25, range moves to \$10.25-\$20.50/hour
  - Not considered a true “raise”; keeps employee purchasing power stabilized
  - New employees start at \$10.25; helps with recruitment
  - New employees making the same as existing employees; employee morale issues, no gap created
  - Usually combined with other types of increases or not used at all because it creates compression

# Types of Compensation Increases

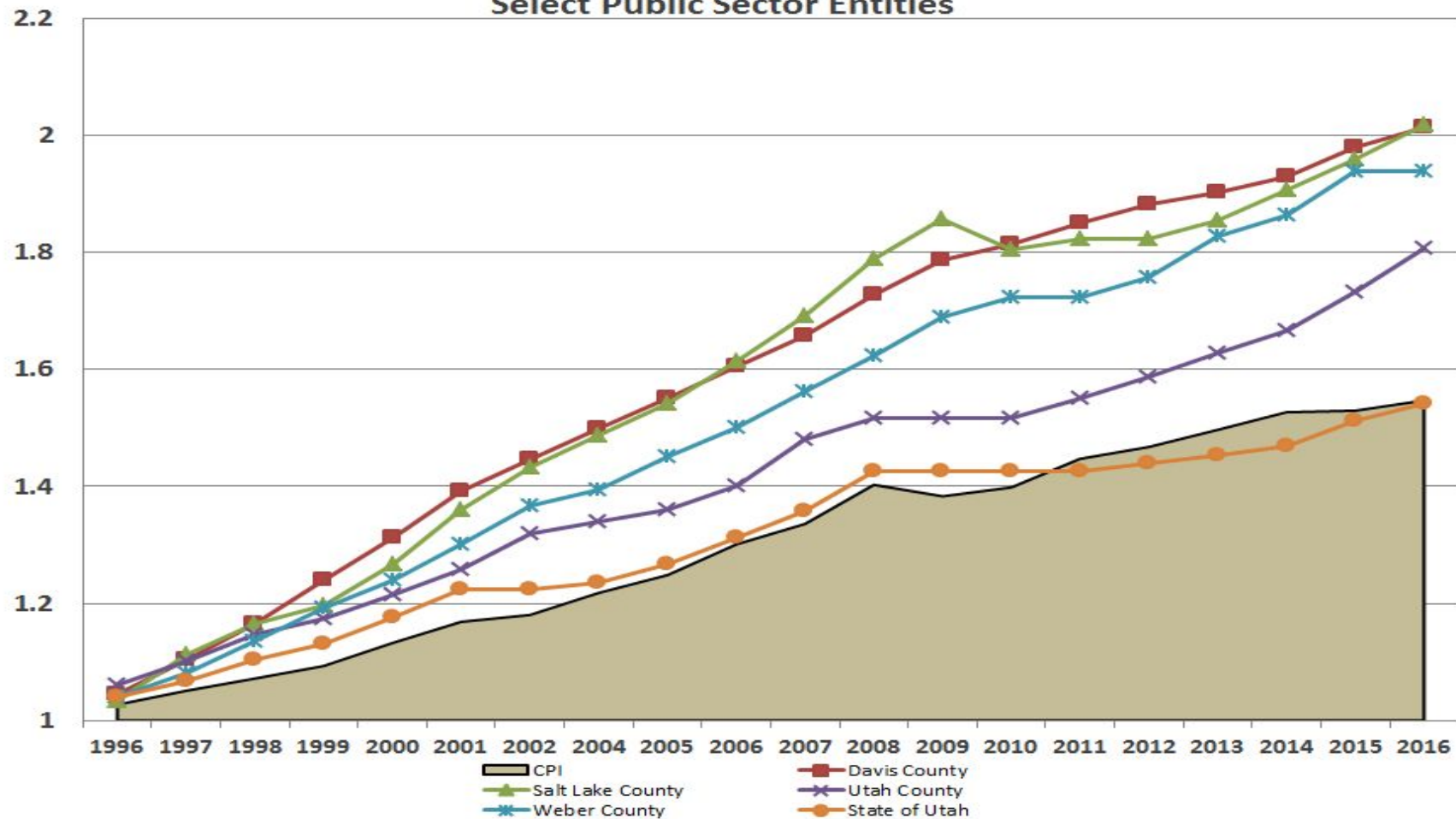
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## ACROSS THE BOARD INCREASES

- **Labor Market Increase** - Provides a salary increase to employees and increases the salary range itself (designed to keep up with what the market is doing rather than the rising cost of goods/services)
  - Same implementation and effects as a Cost-of-Living Adjustment; employee and range both move
  - Inflation may not be rising but the market is moving salaries
  - Prevents employee pay from falling further behind the market
  - Creates compression



## 20 Year History of Across The Board Increases for Select Public Sector Entities



# Types of Compensation Increases

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## SPECIFIC INCREASES

- Targeted Funding Increases - Provides a salary increase only to jobs that demonstrate real problems that can be attributed to compensation
  - May include a salary range increase if also justified
- Discretionary Increases - Provides a pool of funding for agencies to use at their discretion for things such as high performance, internal compression/equity, retention, etc.

# Targeted Funding

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- Prior to HB 239 these increases were called Market Comparability Adjustments (MCA) and the ONLY data point we could use was midpoint of range compared to market
- Targeted Funding increases are now based upon the following data points:
  - Market position
  - Abnormal length of time to fill jobs
  - Job offer declines because of low pay
  - Decreasing number of job applicants over the last 5 years
  - New hires consistently being hired towards the top of the salary range
  - High voluntary turnover
  - High involuntary turnover
  - High number of job level moves (within agency or agency to agency)
  - Exit interview data indicating salary as a factor
  - Compression at the bottom of the salary range

# Structure Adjustment

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- Salary range itself can sometimes be a compensation problem
- Agencies may need to increase salary ranges in order to fill jobs or retain staff
- Compression can exist at the top end of a salary range
- DHRM works jointly with agencies on structure issues to determine justified need
- Must be cost-neutral
- Can happen any time due to no funding requirements
- Structure adjustments that require funding will be included as part of DHRM's annual compensation recommendation

# Why Targeted Funding?

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- State jobs have vastly different characteristics, hiring pools, labor market trends, and compensation.
- DHRM conducts market surveys and analyzes data indicators to identify what jobs are suffering from compensation-related problems.
- Benchmark jobs range in average actual salary from -39% below market to 25% above market.
  - Average is -12.71% below market
- Across the board increases treat everyone equally, but don't help close this gap or address problem areas.

# Targeted Funding Process

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- DHRM surveys executive branch agencies to determine what jobs they feel need targeted funding.
- DHRM compares the salaries of the requested jobs to the salaries paid in the market.
- DHRM looks at all other data indicators that may show a compensation related problem.
- DHRM recommends targeted funding for jobs most exhibiting issues related to compensation.
- Recommendations may include other jobs in the series or the benchmark related to the requested job.
- Targeted Funding recommendations are for jobs statewide- agencies with the same jobs would also be included in the funding recommendation.
  - Example: Finance, clerical

# Targeted Funding Example

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## Social Worker

- Actual pay is -32% below market
- Ranges are -25% below market
- Applicant numbers are down -46%
- Voluntary turnover is 16%
- Exit interviews have cited pay as a factor for leaving

## So What?

- Most hires are new graduates working towards licensure
- Starting wages are -25% less than market
- High training costs
- Many social workers are close to retirement
- New employees take time to orient and assist with patient work
- Quality of care decreases
- Patient length of stay has increased from 272 days to 304 days in the last two years

# Wrap Up

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- DHRM specifically and strategically makes compensation recommendations annually that address real problems
- Recommendations are built around multiple defensible data points
- Terminology matters
- Targeted increases are important to control the spread of salary ranges against market position
  - It will take many years of baby steps on targeted funding to bring the spread into alignment
- State employee compensation increases are funded in a specific compensation bill and is heard at EAC
- We need your help on understanding and supporting compensation objectives
  - Prevent double-funding or no funding
- Detail on our recommendations for FY 2018 will be in the Governor's budget



# Questions?

